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OCC BULLETIN

Comptroller of the Currency
Administrator of National Banks

Subject: Bank-Owned
Life Insurance

Description: Interagency Statement on the Purchase
and Risk Management of Life Insurance

TO: Chief Executive Officers of All National Banks, Department and Division Heads, and All Examining Personnel

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision have issued the attached interagency statement on bank-owned life insurance (BOLI) to remind financial institutions that the purchase and risk management of BOLI must be consistent with safe and sound banking practices. While BOLI can be a useful product to recover costs associated with providing employee benefits, the agencies are concerned that some institutions have invested a significant amount of capital in BOLI without an adequate understanding of the full array of risks it poses. The statement emphasizes that, in addition to credit and interest rate risks, BOLI exposes institutions to liquidity, transaction, reputation, and compliance risks, which are often more difficult to measure and control.

The statement describes supervisory expectations for a thorough prepurchase analysis and a sound risk control framework used to address BOLI exposures on an ongoing basis. The statement also recommends that financial institutions develop and implement comprehensive BOLI policies that articulate an institution's tolerance for risk. The agencies suggest that institutions can control compliance and reputation risks by obtaining informed employee consent and limiting death benefit amounts to a reasonable multiple of an employee's salary. Institutions can control credit, interest rate, liquidity, and transaction risks by limiting the aggregate cash surrender value (CSV) of policies from any one insurance carrier, as well as the aggregate CSV of policies from all insurance carriers. Additionally, the statement discusses accounting issues, the limited conditions under which institutions may hold equities in a separate account BOLI product, and the risk-based capital treatment for BOLI.

The agencies expect bank management to take two specific actions if the institution plans to acquire BOLI in excess of capital concentration¹ thresholds. First, bank management should conduct an analysis to support that such acquisitions do not give rise to an imprudent capital concentration. Second, bank management should obtain approval from its board of directors or a designated board committee prior to the acquisition. In the exercise of its supervisory discretion, the OCC may require, on a case-by-case basis, that a national bank exceeding the capital concentration guidelines set forth in the statement submit a special report pursuant to 12 USC 161(a) explaining why the bank believes its capital concentration in BOLI is prudent and is not unsafe or unsound.

¹ See OCC Bulletin 95-7.

OCC examinations of a national bank's BOLI program will include a review of the risk management framework implemented to identify, measure, monitor, and control risks. Examiners will evaluate the effectiveness of the prepurchase analysis and the control framework used for the ongoing measurement and management of BOLI risks. In particular, examiners will assess the appropriateness of internal limits, with particular emphasis on the limit for aggregate CSV of BOLI, and evaluate whether or not such limits appropriately address liquidity, reputation, and compliance risks.

Effective immediately, this bulletin rescinds OCC Bulletin 2000-23, Bank Purchases of Life Insurance-Guidelines for National Banks, dated July 20, 2000.

For further guidance on issues associated with BOLI, contact Christopher Manthey, Bank Activities and Structure at (202) 874-5300 or Kurt Wilhelm, Treasury and Market Risk at (202) 874-5670.

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Attachment: Interagency Statement on Purchase and Risk Management of Life Insurance
[<http://www.occ.treas.gov/ftp/bulletin/2004-56a.pdf>]